Graded Corporation Problems

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CODE: NABOB.

On paper ruled as for a stock ledger make entry of the following stock transactions of William Henderson, closing the account as of October 31, 1904, and carrying down the balance:

(a) 100 shares (par value $100.00) originally issued, full paid at par, to William Henderson by certificate No. 5, August 16, 1904.

(b) William Henderson sells 50 shares of the original 100 to Charles Gibbons at $120.00, September 14, 1904, receiving certificate No. 37 for shares retained.

(c) October 28, 1904, William Henderson purchases from John Hogan 25 shares at $115.00 and receives certificate No. 78.

CODE: NAIL.

Of $300,000 authorized capital (common stock) $260,000 has been subscribed. $80,000 was paid in cash and $100,000 in property. The remainder is to paid in cash in five equal instalments. The first instalment has been called and collected. The second instalment has been called, but has not yet been collected. Make original entries covering above transactions and prepare ledger accounts.

CODE: NATAL.

A corporation organizes under the laws of Michigan to conduct a manufacturing business. Authorized capital, $400,000.00, half each common and preferred stock; shares $100.00. Five incorporators each subscribe for ten shares of common stock at face value. John Smith purchases from three manufacturing companies their complete plants for $395,000.00 and transfers said plants to the incorporated company for the remaining $395,000.00 of common and preferred stock and $150,000.00 of first mortgage 5% bonds out of a total issue of bonds of $200,000.00, leaving $50,000.00 of bonds in the treasury.

Make opening journal entries and trial balance showing the company's condition after the transaction.

CODE: NATURAL.

"A," "B" and "C" organize Company "D." Capital stock, $100,000.00. "A" subscribes for 740 shares; "B," 250 shares; "C," 10 shares.

"A" is credited with $25,000.00 for services in organizing the company, and is to secure an additional credit of $3,000.00 per month as salary.

"B" is to secure a credit of $1,000.00 per month as salary.

"C" receives $1,000.00 for services in organizing the company.

"A" then has certificates issued to "X" for 20 shares, "Y," 15 shares, and "Z," 15 shares, and also donates 30 shares to the company for working capital.

"M" buys the treasury stock at par, paying cash.

Certificates are issued "C" in full. "B" gets a certificate for 1 month's services, and "M" receives his certificate.

Required journal entries and skeleton ledger to cover the above transactions showing in addition to the usual accounts, accounts with certificates issued and unissued, at par value, in the general ledger.

CODE: NAVE.

On May 31, 1905, corporation "A" sells its assets (except cash) to corporation "B." The balance sheet of corporation "A" is as follows:

ASSETS:	
Real Estate, Buildings, Machinery and Furniture	$ 40,000.00
Merchandise Inventory	15,000.00
Bills and Accounts Rec.	20,000.00
Cash	5,000.00
	$ 80,000.00
LIABILITIES:	
Capital Stock—500 shares of $100	$ 50,000.00
Bills & Accounts Payable	25,000.00
Undivided Profits	5,000.00
	$ 80,000.00

The selling price to corporation "B" is $100,000.00; $50,000.00 being payable in cash and $50,000.00 in the capital stock of corporation "B."

On completion of the sale to corporation "B," corporation "A" pays its bills and accounts payable, distributes the assets then remaining to its stockholders, pro rata and dissolves.

Prepare journal entries for corporation "A" covering the above transactions and closing out corporation "A's" books. Also state how much (a) in cash, (b) in stock of corporation "B" each share of corporation "A" is entitled to in the final distribution.

CODE: NEAT.

The following figures are taken from the books of a firm as at December 31, 1912:

Accounts Receivable	$27,850.00
Merchandise Inventory	9,750.00
Furniture and Fixtures	2,250.00
Plant and Machinery	20,000.00
Investments—Schedule I	24,000.00
Investments—Schedule II	17,500.00
Accounts Payable	48,000.00
Bills Payable	45,000.00

On January 1, 1913, a corporation was formed to take over the business but the Investments list in Schedule II were retained by the partners.

10,000 out of 25,000 shares of Common Stock of the par value of $5.00 each were issued to the vendors as fully paid and 5,000 shares were issued for cash.

9,000 out of 25,000 shares of 6% Preferred Stock of the par value of $5.00 each were given in payment of the Bills Payable of $45,000.

Prepare statement showing the position of the firm's accounts upon the formation of the corporation, the opening journal entries on the books of the new company, and a Balance Sheet for the company after formation, dealing with any difference according to your judgment.

CODE: NECTAR.

A corporation took over the business of an individual whose books showed him to be worth $125,000, for the sum of $200,000, payable $50,000 in bonds, $50,000 in preferred stock, $50,000 in common stock and the remainder in cash. The capital of the company was $100,000 preferred stock and $100,000 common stock. The balance of the stock was subscribed for and bonds were issued for $100,000. According to the subscriptions the stock was to be paid in as follows: 10% on application, 40% in 30 days after allotment and 50% in three months thereafter. On the bonds 10% was to be paid on application and the balance in 30 days after allotment.

Make the necessary journal entries on the books of the company to cover these transactions in accordance with the statement following:

Property and plant	$ 75,000	
Raw material	25,000	
Unfinished orders	15,000	
Accounts receivable	25,000	
Cash	10,000	
Accounts payable		$ 25,000

Make journal entries closing the books of the individual vendor.

CODE: NEOLITHIC.

The Patent Specialty Company was organized July 1. 1907, with a capital of $100,000, to manufacture novelties. The following transactions occurred:

July 1, 1907, one-half of the capital stock was subscribed and issued, 10% being called and paid on that date in cash. Legal and other incorporation expenses, amounting to $500, were paid.

August 20, 1907, patent, covering novelty, was purchased for $50,000, payable one-half in stock and one-half in cash; the stock was issued and delivered, $2,000 paid in cash and note given for balance, due in one month, 6% interest. The patent was subject to royalty rights granted to the novelty company, which terminated at date of purchase. All acrued royalties were to pass with patent and no royalty rights were granted by the Patent Specialty Company.

August 27, 1907, the village Board of Trade donated a lot, valued at $5,000, in consideration of agreement to erect and equip a plant at a cost of not less than $25,000.

September 13, 1907, a further call of 70% was paid. The note was paid at maturity.

December 31, 1907, the following facts existed:

Payments on account of salaries, interest, insurance, etc., amounted to $2,250, with $250 accrued; contracts for construction and equipment amounting to $35,000 had been given which were 75% completed and 40% paid; royalties amounting to $2,725 had been received and $190.00 was accrued.

Prepare journal entries to cover foregoing, and statement to display financial condition at December 31, 1907.

CODE: NESTLE.

The Domestic Manufacturing Company, organized with a capital stock of $5,000,000, one-half preferred stock and one-half common stock, sells five shares of the common stock at par for cash. It issues to John Jones $1,500,000 preferred stock and $1,000,000 common stock in consideration of the assignment by him of certain patents, rights and contracts. Later, Jones agrees to surrender for valuable consideration to the treasurer of the Domestic Manufacturing Company $1,000,000 common stock and $500,000 preferred stock. Still later, Jones agrees with the Domestic Manufacturing Company to surrender $1,000,000 preferred stock and to take in lieu thereof $1,000,000 common stock. Jones makes a further agreement with the Domestic Manufacturing Company to deliver to it all the stock in the Blank Manufacturing Company, appraised at $350,000, and to pay the Domestic Manufacturing Company $150,000, for which he is to receive $500,000 of preferred stock of the Domestic Manufacturing Company.

Illustrate by journal entries the necessary accounts to be opened on the books of the Domestic Manufacturing Company to show each step taken in the foregoing agreement.

CODE: NEXT.

On January 1, The Fairview Real Estate Association was incorporated, the capital subscribed and paid in being $30,000, divided into 30 shares. The association purchased improved property for speculative purposes, paying cash $30,000 and giving a first mortgage for $60,000 at 6%.

The association organized and incorporated on the same day the Fairview Club, with 30 proprietary members (being the stockholders of the real estate association), and 30 associate members, who have no proprietary interest, but enjoy all privileges without incurring any of the liabilities. The annual dues are $100 a year, paid by all in advance.

The association leased to the club the property aforesaid. The consideration in lieu of rent being the payment by the club of all sums for taxes, betterments, interest, fixtures, furniture, etc.

The proprietary members are assessed $300 each, and by a subsequent resolution of the association are to receive credit therefor, with interest at 6%. Five members fail to pay the assessment.

The association having executed a contract for the sale of the property for $110,000, the club disbands at the end of the year.

The club expenditures for the year were as follows: Taxes, $1,800; interest on mortgage, $3,600; repairs, $1,000; improvements, $3,000; furniture and fixtures, $2,000; general expenses, $500; help (sundry employees), $1,600.

There were house charges against the members of $500, which were subsequently collected; and there were payable book debts of $4,000. A second assessment of $100 called for to pay off the club debts, was paid by the proprietary members of the association.

Frame journal entries, raise and close accounts on the association and club books, and prepare balance sheet and revenue account for each.

CODE: NIHIL.

A company is formed, under the laws of Mexico, to take over and work certain mining properties. At the end of one year the company is found to possess:

Mining lands	$ 484,675.48
Buildings and improvements	20,499.76
Machinery	25,612.88
Cash on hand and in bank	24,612.50
Silver bullion	85,209.50
Ore in dump	13,680.00
Merchandise	5,420.80
Fuel, oil, etc.	679.20

The company owes:

On open account	$	3,890.12
On account of pay rolls		400.00
Note due in six months, with interest at 6%		25,000.00
The capital, fully paid, is		500,000.00

Set up balance sheet.

CODE: NIHILISM.

As the greater part of the capital invested in the undertaking set forth in the preceeding question is furnished by citizens of the State of New York, a corporation is organized under the laws of that state to acquire a majority of the capital stock of the Mexican company and thus control its affairs. The capital is fixed at $200,000, all of which is subscribed for and paid in at 120. An issue of $200,000 in 20-year 6% gold bonds is authorized and sold at 110. The new company purchases 4,000 shares of the capital stock of the Mexican company, par value $100 per share, Mexican silver at 150. At the end of one year a dividend of 15% is received on these shares. The taxes and expenses of the company are $8,640.

Set up a profit and loss statement and balance sheet, assuming the value of the Mexican dollar to be 50 cents, gold.

CODE: NOBLY.

"A," "B" and "C" constitute a firm engaged in a manufacturing business, which they have decided to change into a stock company with a capital of $100,000, equally divided into common and preferred stock, par value of each share $100. Each partner is to take stock to the amount of his net investment in the business on the basis of 75% preferred and 25% common stock, and the remaining shares authorized are to be offered for sale. On the taking over of the business the books of the company show assets as follows: real estate, $25,000; machinery and tools, $10,000; merchandise, $15,000; material and supplies, $8,000; cash, $5,000; notes receivable, $3,000; accounts receivable, $9,000. The liabilities are: notes payable, $10,000; accounts payable, $5,000; "A," $25,000; "B," $20,000, and "C," $15,000.

Formulate the necessary entries to close the books of the firm and to open the corporation ledger.

CODE: NONCE.

"A." and "B." were partners trading under the name of the "A." "B." & Co. June 30, 1908, the following balances appear on their ledger:

"A", Capital account	$ 70,000.00
"B", Capital account	50,000.00
Real Estate	22,000.00
Buildings	20,000.00
Machinery & Tools	44,000.00
Furniture & Fixtures	2,000.00
Accounts Rec.	50,000.00
Cash	7,000.00
Material & Mdse.	53,000.00
Accounts Payable	35,000.00
Bills Payable	48,000.00
Bills Rec.	5,000.00

On June 30, 1908, the business is incorporated as the "X" Co., on the following plan:

1. Capital Stock, $150,000.00.

2. "X" Company takes over the entire assets and liablities of "A." "B." & Co. at the book figures as above, except (a) real estate of the book value of $5,000.00, which is retained by "A." "B." & Co.; (b) the accounts receivable, which are taken over at $48,000.00, and (c) the capital accounts of the partners.

3. "X" Company pay "A." "B." & Co. $30,000.00 for the goodwill of the business.

4. Payment to "A." "B." & Co., is made as follows: $50,000.00 in first mortgage bonds, and the balance in capital stock of the "X" Co.

5. After paying off "A." "B." & Co. the remainder of the capital stock is sold for cash to sundry persons.

The real estate which was retained by "A." "B." & Co. is bought from "A." "B." & Co. by "A." for $7,000.00 and is to be charged to "A.'s" capital account.

After the completion of the above described transactions "A." and "B." dissolve partnership.

You are required: (a) to prepare closing entries for the books of "A." "B." & Co., (b) a statement setting forth the partners' accounts down to their final closing, beginning with the balances shown by the books on June 30, 1908; (c) opening entries of the "X" Co.

CODE: NORTHING.

Brown and Jones have dry goods stores near each other. They decide that by amalgamating their businesses and forming a joint stock company they can do a larger and more profitable business at less expense. Both have kept their books by single entry. You are called in to give the necessary statements to enable them to ascertain how they stand and to open the books of the Brown-Jones Company, Limited. You find the following accounts in the ledgers, viz.:

BROWN'S LEDGER

BALANCES AS AT AUGUST 1, 1909.

Cash on hand ....$	250.00	$
Bank Balance	5,400.00	
Cash Sales		10,000.00
Book debts	25,000.00	
Bills receivable	3,000.00	
Store and land	30,000.00	
Fixtures	2,000.00	
Wages and expenses......	4,000.00	
Accounts payable		6,000.00
Bills payable		2,550.00
Brown's drawings	10,000.00	
Freight, duty and cartage	8,000.00	
Inventory of goods........	8,700.00	
Unexpired insurance ..	200.00	

JONES' LEDGER

BALANCES AS AT AUGUST 1, 1909.

Cash on hand ....$	100.00	$
Bank balance	3,500.00	
Cash sales		12,000.00
Stores and land	25,000.00	
Fixtures	1,500.00	
Wages	2,000.00	
Jones' personal account	6,000.00	
Expenses	1,500.00	
Book debts	15,000.00	
Bills receivable	1,000.00	
Freight, duty and cartage	5,000.00	
Accounts payable		5,000.00
Bills payable		3,000.00
Inventory of goods........	5,800.00	
Unexpired insurance......	100.00	

The capital of the company is to be $150,000.00, in shares of $100.00 each, of which Brown is to take $70,000.00 and Jones $50,000.00. If the capital invested in the business of either exceeds these sums, they are to receive the surplus in cash, but if it is less, they are to pay in the difference in cash. The balance of the stock is subscribed and paid for in cash.

Make necessary changes in Brown's and Jones' ledger balances to show standing of firms and capital invested, and give trial balance from company's ledger after opening entries have been made.

CODE: NOTE.

"A" and "B" are partners and share profits in proportion to their capital invested. "C," "D" and "E" are partners, having equal interest in the business. A balance sheet from the books of "A" and "B" is as follows:

ASSETS:

Accounts Receivable	$ 2,500.00
Cash in Bank	1,000.00
Merchandise as per inventory	2,500.00
	$ 6,000.00

LIABILITIES:

Accounts Payable	$ 1,200.00
"A's" Investment	1,500.00
"B's" Investment	2,000.00
Bills Payable	500.00
Undivided Profits	800.00
	$ 6,000.00

"C," "D" and "E" kept no books, but have the following assets and liabilities:

ASSETS:

Cash in Bank	$ 800.00
Accounts Receivable	3,000.00
Merchandise as per inventory	3,000.00
Real Estate—Warehouse	1,200.00
	$ 8,000.00

LIABILITIES:

Mortgage on Real Estate	$ 500.00
Accounts Payable	300.00
	$ 800.00

"A" and "B" arrange with "C," "D" and "E" to form a corporation with a capital stock of $15,000.00. The corporation to assume all assets and liabilities of both partnerships. Each partnership agrees that a reserve of 10% against Accounts Receivable shall be created and charged against their individual partnership holdings prior to the consolidation.

The entire capital stock is to be allotted to "A," "B," "C," "D" and "E," in proportion to their partnership holdings.

The organization expense paid by the new company was $200.00.

Make a balance sheet for the new company, and give each of the aforesaid partners his allotment of shares.

CODE: NOTICE.

Charles and Robert Wilson are copartners in a manufacturing business, trading under the firm name of Wilson Bros. Following is a statement of the firm's financial condition Dec. 31, 1900:

ASSETS:		
Real Estate and Buildings		$ 165,000.00
Machinery and Fix.		39,000.00
Horses, Trucks and Harness		4,500.00
Patents		1,500.00
Stocks and Materials		20,000.00
Notes and Loans Rec.		5,000.00
Accounts Receivable		15,000.00
		$ 250,000.00
LIABILITIES:		
Notes Payable	$ 4,000.00	
	2,000.00	$ 6,000.00
Accounts Payable	$ 10,000.00	
	10,000.00	
	10,000.00	
	4,000.00	34,000.00
Chas. Wilson, Capital		150,000.00
Robt. Wilson, Capital		60,000.00
		$ 250,000.00

A joint stock company under the corporate title of Wilson & Wilson, Incorporated, is organized with a capital of $300,000, of which $60,000 is 8% cumulative preferred stock and $240,000 is common stock (both $100 par value), to acquire and conduct the business of Wilson Bros. Charles and Robert Wilson and Henry Miller each subscribe for $10,000 of common stock. The company votes to acquire the interest of Charles and Robert Wilson in the business, real estate, plant, outstanding accounts, etc., of Wilson Bros., and to assume the firm's indebtedness of $40,000, in consideration of the sum of $210,000, and to pay therefor 2,100 shares of common stock of the corporation, 1,500 shares to be issued in the name of Charles Wilson and 600 shares in the name of Robert Wilson. The company votes to place a mortgage on its real estate and plant for $50,000 to secure an issue of $50,000 first mortgage 5% gold bonds of the denomination of $1,000 each. The creditors subscribe for preferred stock to the amount of 50% of the amounts due them and take bonds at par for the remainder.

Make all entries for the foregoing transactions in the order of their occurrence, giving details to be found in ledgers and all subsidiary books of account and record.

CODE: NOVICE.

Messrs. Sharp and Flat, partners, engage in manufacturing, decide to form a business corporation under the laws of New York, under the name of The Sharp & Flat Manufacturing Company, having an authorized capital of $100,000. The corporation, in consideration of the entire issue of capital stock, purchased all of the assets and assumed all of the liabilities of the partnership as shown by the following balance sheet dated May 31, 1900. Sharp & Flat take all the stock except five shares, par value, $100 each, issued to incorporators for cash subscriptions.

BALANCE SHEET—MAY 31, 1900.

ASSETS:	
Plant and machinery	$ 35,000.00
Stock on hand per inventory	20,525.00
Accounts receivable	22,750.00
Bills receivable	1,500.00
Cash	5,225.00
	$ 85,000.00
LIABILITIES:	
Sharp's capital	$ 42,500.00
Flat's capital	36,300.00
Accounts payable	5,250.00
Bills payable	700.00
Wages due and unpaid	250.00
	$ 85,000.00

During the first year of the corporation's existence, the books were kept in the same manner as during the partnership. Soon after the end of the first fiscal year, however, a certified public accountant was presented with the following trial balance showing the condition of the books, May 31, 1901, and was requested to open a new set of books for the corporation, covering the operations of the business during the past year, and to prepare therefrom an income and profit and loss account and a balance sheet:

TRIAL BALANCE—MAY 31, 1901.

Sharp's capital	$	$ 42,500.00
Flat's capital		36,300.00
Plant and machinery	37,500.00	
Stock on hand, per ventory, May 31, 1900	20,525.00	
Sales		131,405.00
Purchases: Material and supplies	48,000.00	
Labor	34,500.00	
Office Salaries	7,000.00	
Traveling expenses	2,400.00	
Interest	600.00	
Stationery and printing	175.00	
Rent and taxes	4,200.00	
Discounts and allowances	2,250.00	
Fuel	4,600.00	
Insurance	175.00	
Freight, inward	1,750.00	
Commission	6,375.00	
Advertising	500.00	
Bills receivable	6,115.00	
Bills payable		1,100.00
Accounts receivable	36,115.00	
Accounts payable		7,850.00
Cash	6,375.00	
	$ 219,155.00	$ 219,155.00

Draft the opening journal entries necessary to give effect to the above, prepare an income and profit and loss account and a balance sheet as at May 31, 1901.

Write off (a) depreciation 5% on plant and machinery, (b) unexpired insurance $75.00, (c) bad debts $325.00.

Inventory, stock on hand May 31, 1901, $19,605.00.

CODE: NUMB.

Senior partner "A" desires to retire from active business life. He has confidence in the ability and integrity of his partner "B" and both have a like regard for their sales manager "C" and their works manager "D" who have accumulated considerable means. In this situation "B" proposes to organize and to continue the business as a corporation, under his executive management, and to bring in sufficient capital from "C" and "D" in equal parts to pay off the principal of a real estate mortgage falling due at the end of the year, and sufficient capital from "E", who is not connected with the business, to pay off the principal of the firm's notes payable. It is contemplated that "E" shall be made the treasurer of the corporation and that the five parties shall be the incorporators and constitute the first board of directors.

In the discussion between "A" and "B" it is agreed that the net worth of the business, exclusive of the goodwill which has never been represented on the books, shall be converted into preferred stock of the corporation and that the goodwill shall be valued at one-half the net worth and be converted into common stock; also that the cash capital contributed by "C", "D" and "E" shall be paid to the firm and used by it for the purposes proposed by "B" and converted into preferred stock for account of the three parties respectively. Thereupon "A" proposed and agrees to surrender one-fourth of his share of the common stock on the condition that it shall be distributed as follows: two parts to "C", two parts to "D" and one part to "E".

These matters are all covered by written agreement of the five parties, in which agreement it is provided that "A" and "B" shall convey to the corporation all the property, business and goodwill of their co-partnership, and that all the transactions and stock distributions provided for shall be carried through and be closed out in the books of the co-partnership, including the sum of $5,000 which shall be advanced to enable the incorporators to pay fully their subscriptions for 10 shares each of the common stock of the corporation.

A certified public accountant is engaged to make an examination of the books and accounts up to the close of the year just approaching; to procure appraisements of the property, and to close the books after providing therein for his compensation.

On the completion of his work the books show the following condition:

ASSETS:	
Land	$ 50,000.00
Buildings	200,000.00
Machinery, etc.	100,000.00
Finished product, product in process, materials and supplies	150,000.00
Notes receivable	100,000.00
Accounts receivable	100,000.00
Cash	100.000.00
	$ 800,000.00
LIABILITIES AND CAPITAL	
Real estate mortgage	$ 100,000.00
Accrued interest on real estate mortgage	2,500.00
Notes payable on demand	50,000.00
Accrued interest on notes payable	1,000.00
Accounts payable	25,000.00
Accrued taxes	6,500.00
Reserve provision for uncollectible accounts	15,000.00
"A's" capital	400,000.00
"B's" capital	200,000.00
	$ 800,000.00

Prepare cash-book and journal entries to be placed on the books of the co-partnership to represent properly thereon the carrying out of all the matters provided for in the agreement of the five parties and to close the books.

CODE: OAK.

The Richardson Engraving and Printing Co., a corporation had an authorized capital stock of $50,000 owned by Wm. Richardson, $10,000; Silas Johnson, $15,000, and Thomas Acton, $25,000.

The plant was destroyed by fire Sept. 23, 1908. All the books and records were saved except the sales records, which were not written up for September. The insurance companies paid $28,000 on the plant and $7,000 on the stock, which was distributed to the stockholders as received in proportion to their holdings. Cash was received from September sales amounting to $13,500. On Sept. 30th the trial balance disclosed the following conditions:

Capital stock ....$		$ 50,000.00
Plant	30,000.00	
Stock on hand, June 1st, 1908	8,750.00	
Accounts receivable....	20,640.00	
Reserve for bad debts		1,250.00
Accounts payable.........		12,590.00
Insurance adjustment.		28,000.00
Cash	3,900.00	
Engraving		77,600.00
Printing		99,350.00
Sept. sales, not allocated		24,175.00
Merchandise purchases	57,800.00	
Wages	130,180.00	
Rent	1,800.00	
Salaries	5,750.00	
Profit and loss, surplus		855.00
Wm. Richardson	7,000.00	
Silas Johnson	10,500.00	
Thos. Acton	17,500.00	
	$ 293,820.00	$ 293,820.00

The accounts receivable realized $18,320 and the liquidation expenses were $1,850. The stockholders turned in their stock for cancellation and received their proportionate amount of cash. Prepare journal entries closing the books of the corporation and a profit and loss account.

CODE: OAR.

Assuming a scheme was on foot for the consolidation of six competitive manufacturing companies engaged in the same line of business, and that you were invited to formulate a scheme for the valuation of the goodwill and assets of the respective companies that would be fair and equitable to all parties, outline generally the plan you would recommend, dealing specifically and separately with—(a) goodwill; (b) plant and equipment; (c) inventories, of raw material, work in process and finished stock, respectively, and (d) accounts and bills receivable.

CODE: OASIS.

A corporation is organized to conduct a manufacturing business with a declared capital of $2,000,000, divided into 20,000 shares of the par value of $100, of which 15,000 shares or $1,500,000 shall be preferred stock and 5,000 shares or $500,000, common stock. The corporation proposes to issue $500,000 in consolidated mortgage bonds to be used toward the purchase of sundry properties. The amount of capital with which the corporation begins business is $50,000, being the proceeds of subscriptions for 500 shares preferred stock.

To carry out the purposes of said corporation, the real estate, water power, machinery, goodwill, etc., of certain existing corporations have been purchased at an appraised valuation of $2,000,000, viz., Diamond Mfg. Co., $200,000; Eureka Mfg. Co., $300,000; Champion Mfg. Co., $500,000; American Mfg. Co., $600,000; Aetna Mfg. Co., $400,000; and in payment full paid stock and bonds have been issued at par on a basis of 60% in preferred stock, 20% in common stock and 20% in bonds.

Material and supplies are to be paid for in cash when their value is determined.

Formulate the entry necessary to open the books of the new corporation.

CODE: OBLONG.

The Great Northern Manufacturing Company was incorporated under the laws of the state of New Jersey, February 1, 1899, with a capital stock of $10,000,000, consisting of $4,500,000 (45,000 shares of $100 each) preferred 7% non-cumulative stock, and $5,500,000 (55,000 shares of $100 each) of common stock. On the same date $2,000 of the common stock was subscribed for at par as follows:

By John Smith, 2 shares	$ 200
Henry Brown, 4 shares	400
John Doe, 4 shares	400
Henry Rodman, 3 shares	300
Wm. Rodman, 7 shares	700
Total	$ 2,000

On February 4, 1899, these subscribers paid in to the company the amount of their subscription, and the stock was issued to them. February 15th the balance of the authorized capital stock of the company both preferred and common, was issued by resolution of the board of directors, to John M. Scott, for and in consideration of $750,000 in cash and 12 manufacturing plants. An inventory of the property purchased, made by authorized representatives of the company, resulted in the following appraised valuations of the various plants and the stock on hand:

Factories	*Mat. and Sup.*	*Merchandise*	*Real Estate*	*Buildings*	*Machinery*
A	$ 430,000	$ 95,000	$ 195,000	$ 20,000	$ 98,000
B	211,000	44,000	130,000	10,000	84,000
C	495,000	38,500	475,000	11,000	62,000
D	304,000	15,000	924,000	13,000	48,000
E	171,000	32,750	184,000	14,500	89,000
F	86,500	81,000	60,000	17,750	26,000
G	47,250	44,000	30,000	32,500	34,000
H	98,000	35,750	20,000	14,600	62,000
I	101,250	11,000	10,000	17,200	11,000
J	37,000	13,000	11,000	19,200	35,000
K	346,000	49,000	14,000	75,000	71,000
L	121,000	67,000	37,000	34,750	44,000
	$2,448,000	$526,000	$2,090,000	$279,500	$664,000

Open the accounts of the company so that the result of the operation of each factory will be known at the end of the company's fiscal year. The books of the company are not to show the appraised valuation placed on the real estate, buildings, machinery, etc., by factories, but in one amount only; and it is desired that the account include any expenditures incurred by the company for goodwill, etc.

Make opening entries in cash book, journal and ledger, covering in full the above transactions.

CODE: OBTRUDE.

Two manufacturers producing the same class of wares and operating in adjacent territories decide to consolidate by incorporating a company to acquire the assets and business of both concerns, with an authorized capital of $500,000, half common and half preferred stock. The company so formed purchases the plant and other assets of the two vendors, subject to payment of $10,000, giving therefor its capital stock to the full amount authorized.

In order to provide a working capital, the vendors donate one-fifth of both common and preferred stock to the company's treasury. The company sells four-fifths of the preferred stock so donated, at 90%, giving therewith a bonus of 50% of common stock. For the purpose of making needed betterments and extensions to the plant the company issues 20 year 6% gold bonds to the amount of $100,000, secured by a mortgage on its real estate, which bonds are sold to bankers at par, with a bonus of 10% preferred stock and 30% common stock.

Frame journal entries of the above transactions, showing the assets and liabilities consequent thereon.

CODE: OCCUPY.

Three manufacturers each having an independent business and wishing to effect a consolidation of their respective interests, organize the United States Manufacturing Corporation, with an authorized capital stock of $1,500,000, consisting of 7,500 shares of preferred stock and 7,500 shares of common stock of $100.00 each. They sell to the new company all of their real estate, buildings, machinery, tools, fixtures, merchandise and supplies in consideration of $1,500,000 and agree to accept in payment $750,000 of preferred and $750,000 of common stock of the United States Manufacturing Corporation at par. The vendors donate to the treasury of the company $150,000 of preferred stock and $150,000 of common stock to provide for working capital. The company sells $100,000 of its preferred stock in the treasury for 80% cash, giving a bonus, to the purchaser, of 20% common stock.

For the purpose of raising additional funds for improvements and additions to plant, the company mortgages its real estate and buildings, as security for an issue of bonds amounting to $250,000. These bonds the company sells to bankers at 90%, giving as a bonus 10% preferred stock and 20% of common stock.

Draft entries to express correctly the above transactions on the books of the corporation, and prepare a statement of assets and liabilities of the company.

CODE: OCTAVO.

Several manufacturers consolidate their interests and organize the Consolidated Manufacturing Company with an authorized capital stock of $1,000,000, divided into 5,000 shares of common stock and 5,000 shares of preferred stock at $100.00 each, par value.

The manufacturers sell to the company all of their assets subject to floating debts of $115,000, divided into notes payable $65,000, and accounts payable $50,000, for the sum of $1,000,000 payable $1,000 in cash, $499,000 in common stock and $500,000 in preferred stock. The company agrees to pay the debts of $115,000. The active assets acquired are inventoried by the Consolidated Manufacturing company as follows: real estate, $175,000; machinery, $200,000, and merchandise, $155,000.

The patents and goodwill were inventoried at a sum equal to the difference between the net cost to the company of the assets acquired and the above valuation of the active assets.

The company received $1,000 cash for 10 shares of common stock and for the purpose of providing funds for working capital authorized an issue of bonds amounting to $300,000 of which $200,000 were immediately sold as follows: $100,000 for cash at 80% and $100,000 for cash at par with a bonus of common stock amounting to $100,000.

For the purpose of providing common stock to be given as a bonus, the manufacturers donated $200,000 of common stock to the treasury of the company.

Prepare the journal and cash entries for the company, covering all of the above transactions, and prepare a balance sheet of the company.

CODE: OFFICIAL.

A proposition has been made for the taking over of three corporations chartered by the State of Pennsylvania by a fourth corporation to be chartered by the same state.

The following statement of affairs has been submitted by the three corporations proposed to be absorbed, and found to be correct:

CORPORATION NO. 1.	
Capital stock (par value of shares, $25.00)	$ 1,000,000.00
Treasury stock	100,000.00
Bonded indebtedness	500,000.00
Treasury bonds	50,000.00
Accounts payable	80,000.00
Bills payable	50,000.00
Cash	50,000.00
Accounts receivable	180,000.00
Bills receivable	42,000.00
Supplies	18,000.00
Plant and franchise	1,250,000.00
CORPORATION NO. 2.	
Capital stock (par value of shares, $50.00)	$ 1,000.000.00
Bonded indebtedness	500,000.00
Accounts payable	120,000.00
Bills payable	10,000.00
Cash	53,000.00
Accounts receivable	220,000.00
Bills receivable	80,000.00
Supplies	52,000.00
Plant and franchises	1,275,000.00
CORPORATION NO. 3.	
Capital stock (par value of shares, $25.00)	$ 1,000.00

The proposition made to the three corporations is as follows: Each corporation shall pay its own debts, and distribute among its own stockholders whatever amount shall appear to the credit of profit and loss in closing their books, treating the statements rendered as being correct as to values.

The remaining assets are to be turned over to the promoters of the new corporation on the following terms:

The capital stock of corporations Nos. 1 and 2 at 20% premium in cash, and $100,000.00 in cash be paid for the capital stock of corporation No. 3.

The bonds of the two corporations will be purchased at a premium of 5%.

The proposition was accepted.

Give closing entries of the books of the old corporations.

Organize the new corporation with a capital of $1,000.00, and increase to such an amount as you may deem necessary, carrying the expenses of incorporation through your cash (estimated at $100), including $5,000.00 counsel fees.

Provide for an issue of bonds sufficient to carry out this agreement, said bonds to be sold at 10% discount, and also provide for $150,000.00 bonds in treasury, and give a balance sheet of the new corporation after the organization.

CODE: OILER.

Acting through an agent and trustee, a syndicate acquires the following assets of two corporations as valued by appraisement and examination:

Timber lands	$ 1,500,000.00	$ 1,000,000.00
Timber rights	700,000.00	800,000.00
Trams and logging outfits	100,000.00	150,000.00
Mill structures and equipment	200,000.00	250,000.00
Materials and supplies	20,000.00	30,000.00
Logs	100,000.00	200,000.00
Lumber	230,000.00	320,000.00
Bills and notes receivable	40,000.00	30,000.00
Customers' accounts	110,000.00	220,000.00
	$ 3,000.000.00	$ 3,000,000.00

This syndicate organizes "Lumber Company" and sells thereto all of the above property and accounts, excepting the timber lands. The syndicate also makes a stumpage contract with the company, conveying the right at stipulated prices per M feet to remove from such lands all of the milling timber. The syndicate agrees to receive as consideration $1,500,000 of Lumber Company's preferred stock and $3,000,000 of its common stock.

The syndicate also organizes "Land Company" and sells thereto the timber lands and stumpage contract made with Lumber Company and agrees to receive as consideration $1,500,000 of Land Company's first mortgage bonds and $1,400,000 of its capital stock.

In organizing these companies the syndicate paid into the treasury of Lumber Company $500,000 in cash for a like amount of its common stock and into the treasury of Land Company $100,000 in cash for a like amount of its capital stock.

Prepare a balance sheet of each company, giving effect to the organization transactions and to the purchase made by each from the syndicate.

CODE: OLIO.

The American Gas Light Company had operated a gas plant since the beginning of the year 1896. For the purpose of acquiring the industry, the National Gas Company was organized April 1, 1899, with a capital of $100,000, and after purchasing all of the capital stock of the American Company, issued $100,000 of first mortgage 6% gold bonds, dated April 1, 1899, due April 1, 1929, interest payable Jan. 1 and July 1 of each year.

June 30, 1899, the two companies were united by a certificate of merger, and new books were opened.

The accounts of the American Gas Light Company had not been closed at any time during that company's existence, and at the date of the merger, stood as follows:

ASSETS:		LIABILITIES:	
Land and buildings, machinery, mains and franchises	$ 82,360.73	Capital	$ 50,000.00
Material and tools	1,856.30	Bills payable	5,000.00
Coal, including freight	47,540.45	Accounts payable	2,679.81
Labor	50,668.73	Gas account	157,683.33
Repairs	13,872.46	Coke account	6,210.69
Water and other supplies	3,869.39	Tar account	4,500.54
Superintendence	3,500.00		
Salary, clerks and collectors	5,600.00		
Office expense	2,100.00		
Insurance	1,435.00		
Taxes	4,237.10		
Interest	1,450.40		
Cash	2,251.47		
Consumers' accounts	3,210.44		
Other accounts receivable	2,121.90		
	$ 226,074.37		$ 226,074.37

The inventory was as follows:

Coal	$ 400.00	
Coke	150.00	
Tar	100.00	
		$ 650.00

In acquiring the stock of the American Company, paying organization expenses etc., the National Company used all its capital stock and $90,000 first mortgage bonds, holding in reserve $10,000 of bonds for improvements.

Make the necessary journal entries to open the books of the new company, and prepare a balance sheet dated June 30, 1899.

Also prepare a profit and loss account showing the average annual results of the operations of the old company.

CODE: OMIT.

The Smith Brewing Co., with $1,000,000 capital stock, the Young Brewing Co., with $500,000 capital stock, and the Star Brewery, with $400,000 capital stock, agree to consolidate as the Universal Brewing Corporation, the new company to buy all the properties of the old companies, at a valuation to be fixed by appraisal, payment therefor to be made in full-paid stock of the new company, the old companies to pay off their own indebtedness.

The appraised values of the old companies are as follows:

	SMITH	YOUNG	STAR
Real estate and buildings	$ 680,000	$ 327,000	$ 126,000
Plant	390,000	160,000	71,000
Cash	15,000	3,000	1,000
Bills receivable	10,000	6,000	....
Horses, wagons and harness	4,000	3,000	1,500
Office furniture	1,000	1,000	500
	$ 1,100,000	$ 500,000	$ 200,000

On this valuation the Universal Brewing Corporation issued $2,000,000 of stock, shares $100 each, which was divided pro rata among the old companies on the basis of their appraised value, no fractional shares of stock to be issued, odd amounts to be paid old companies in cash.

Give journal entries necessary to set up the property accounts and credit old companies with their pro rata on books of the new company.

CODE: OMITTED.

At the time of the consolidation the ledger accounts of the Star Brewery were as follows:

ASSETS:

Real estate and buildings	$ 250,000.00
Plant	247,000|00
Cash	1,000.00
Horses, wagons and harness	1,800.00
Office furniture	1,200.00
	$ 501,000.00

LIABILITIES:

Capital stock	$ 400,000.00
Bills payable	50,000.00
Accounts payable	51,000.00
	$ 501,000.00

Make the proper journal entries to liquidate in stock of the new company the liabilities other than capital stock, to apportion the remaining stock and cash, and to close the books of the Star Brewery.

CODE: ONE.

The stockholders of "A" Company and "B" Company have decided to form a new corporation ("C" Company), which is to take over all the assets and assume all the liabilities of both the old companies. The holders of preferred stock of the old companies are to receive an equal number of shares of preferred stock of the new company. The holders of the common stock are to take common stock of the new company, at par, to an amount equal to the book value of their holdings in the old companies. Before determining the book value of the old common stock, however, an amount equal to two per cent of the accounts and bills receivable of each company is to be deducted from its surplus and carried to a reserve account, to provide for contingent losses.

The condition of the old companies is as follows:

ASSETS:

	"A" Co.	"B" Co.
Cash	$ 20,231.74	$ 43,123.81
Accounts receivable	296,059.14	759,911.06
Bills receivable	8,245.08	35,342.09
Merchandise inventory	212,636.81	393,937.46
Land and buildings	42,689.42	174,156.97
Machinery	31,222.97	69,160.35
Furniture and fixtures	2,500.00	5,000.00
Investments	8,000.00	4,550.00
Prepaid taxes and ins.	1,014.20	2,346.48
	$ 622,599.36	$ 1,487,528.22

LIABILITIES:

Accounts payable	$ 204,669.18	$ 244,168.44
Bills payable	86,844.10	227,454.72
Preferred stock	100,000.00	200,000.00
Common stock	150,000.00	400,000.00
Surplus	81,086.08	415,905.06
	$ 622,599.36	$ 1,487,528.22

The holders of common stock in the old companies are as follows:

	"A" Co.	"B" Co.
Smith	400 shares	1,200 shares
Jones	300 "	
Brown	150 "	
Black	50 "	2,000 "
White	600 "	
Green		500 "
Henry		300 "
	1,500 "	4,000 "

Draft the journal entries necessary to create the reserve accounts in the books of each of the old companies.

Show the final book value of common stock of each of the old companies.

Show the number of shares of common stock of the new company to be received by each of the holders of common stock of the old companies.

Prepare a balance sheet, showing conditions of "C" Company, after taking over the assets and liabilities of the old companies.

CODE: OOZY.

It is proposed to organize a corporation for the purpose of acquiring the stock and controlling three existing corporations, "A", "B" and "C", two of which latter, "A" and "B", have been in operation for five and three years, respectively, while "C" has been newly organized. The assets and liabilities of the several existing companies and the dividends paid are as follows:

ASSETS:

	"A"	"B"	"C"
Plant	$ 400,000	$ 300,000	$
Material	295,000	425,000	
Cash	40,000	15,000	500,000
	$ 735,000	$ 740,000	$ 500,000

LIABILITIES:

	"A"	"B"	"C"
Capital	$ 100,000	$ 300,000	$ 500,000
Surplus	60,000	40,000	
6% bonds, 5-year	500,000	300,000	
Current Liabilities	75,000	100,000	
	$ 735,000	$ 740,000	$ 500,000

DIVIDENDS PAID:

"A"	"B"	"C"
$ 120,000	$ 30,000	$ ....

For the purpose of the issuance of stock in the new company to the holders of stock in the three existing companies, it is proposed to capitalize the latter upon the following basis:

Money assets at double their value; plant at 80% of book values; material at 70% of book values; annual net earnings at 8%, and liabilities at par.

The new company will be organized with a capital stock of $2,200,000, all of which is to be used in acquiring the stock of the existing companies.

(1) What amount of stock in the new company are the owners of the stock in each of the existing companies entitled to receive?

(2) Give a short criticism attacking the above basis of stock allotment and submit a more equitable basis.

CODE: OPERA.

A company is incorporated for the purpose of acquiring and operating the plant and goodwill of three previously independent concerns, the authorized capital being $1,000,000.00, half of which is common and half preferred stock. The total stock and $100,000 are issued to the vendor, in payment of the several properties acquired through him.

The vendor disposes of $200,000 of preferred stock to bankers at par with a bonus of one share of common stock for each two shares of preferred stock, and he also sells $400,000 of the common stock at 50%. The price paid by the vendor for the three plants acquired are (1) $100,000; (2) $200,000; (3) $300,000, each of which is payable one-half in preferred and one-half in cash.

The properties are found to be in a "run down" condition and the company expends during the first year $75,000 in renewals and repairs to bring the plant to a state of efficiency, all of which is charged to revenue. On a review of the accounts it appears that only $15,000.00 of said outlay was for replacement and $60,000 is accordingly transferred to the plant account in the proportion of (1) $30,000.00, (2) $20,000.00, (3) $10,000.00.

For the purpose of determining and separately stating the intrinsic plant values and goodwill after the additional outlay, the properties were appraised under four general divisions and the result of the appraisement was as follows:

	1	2	3
"A"	$ 25,000	$ 60,000	$ 85,000
"B"	75,000	100,000	175,000
"C"	2,000	5,000	7,000
"D"	8,000	18,000	25,000
	$ 110,000	$ 183,000	$ 292,000

Frame the journal entries to open the books of the company in accordance with the above statement.

CODE: ORDURE.

The Adams Company was organized July 1, 1905, under the laws of the State of Michigan, with an authorized capital stock of $100,000, divided into 1,000 shares of $100 each. Their operations have not been very successful; their stock has never paid any dividends, and their capital, at present, is impaired. The stockholders at a meeting decided to reorganize the company, and for that purpose a committee was appointed to have the properties appraised and to take such measures as they would deem advisable. The condition of affairs as disclosed by the books is as follows:

Real estate and buildings	$ 35,000.00	
Plant and machinery	28,000.00	
Equipment and fixtures	14,000.00	
Tools	3,000.00	$ 80,000.00
INVENTORIES:		
Finished goods	$ 27,500.00	
Raw material	11,500.00	
Supplies	5,300.00	44,300.00
Organization expenses	$ 8,000.00	
Less amount written off	3,000.00	5,000.00
Capital stock		100,000.00
Treasury stock		5,000.00
Bonded indebtedness		25,000.00
Treasury bonds		5,000.00
Accounts receivable		87,700.00
Notes receivable		17,800.00
Cash		3,200.00
Notes payable		26,200.00
Accounts payable		82,000.00
Loans payable		26,000.00

The Baker Company is a corporation also organized under the laws of this state, and in existence for the last five years. The capital stock of this company is $150,000, divided into 1,500 shares of $100 par value. The company has paid an annual dividend of 9 per cent since organization, and their yearly net profits were as follows:

First year	$ 34,500.00
Second year	33,000.00
Third year	35,000.00
Fourth year	35,000.00
Fifth year	30,500.00

Having learned of the financial embarrassment of the Adams Company, and desiring to get possession of their buildings and real estate, which are adjacent to the Baker Company's property, they propose to the committee of the Adams Company that the two corporations be amalgamated. A consolidation agreement was drawn up, containing among others, the following provisions:

(1) The charter of the Baker Company is to be amended and the name changed to that of the Consolidated Manufacturing Company, the latter to absorb the stock of the Adams and Baker Companies, respectively.

(2) The current assets of the Adams Company are to be taken over at their book value, except that a reserve of 5% be deducted on notes and accounts receivable.

(3) The fixed assets are to be taken over on the following basis:

(a) Real estate and buildings at 15% increase of book value.

(b) Plant and machinery at 85% of book value.

(c) Equipment fixtures at 80% of book value.

(d) Tools at 60% of book value.

(e) Organization expenses are not to be considered at all.

(4) The Consolidated Manufacturing Company to assume the liabilities of the Adams Company to the public, and to issue to the latter capital stock for the excess of the assets over the liabilities. If there be any fractional sum of $100 the Adams Company is to receive a full $100 share for such fractional part.

(5) The assets of the Baker Company are to be taken over at their book value, and, in addition, the company is also to be given stock for the goodwill, the latter to be based on the last three years' net profits, and is to be 60% of that total.

(6) The Consolidated Manufacturing Company is to provide for a bond issue of $100,000, with which it is to take up the outstanding bonds of the Adams Company, and to sell the balance in order to raise cash funds; the stockholders of each respective company to have the privilege of taking the bonds at 96.

(7) The Consolidated Manufacturing Co. to assume all liabilities of the Baker Co. to the public.

CODE: ORDURE—CONTINUED.

Assuming that the last balance sheet of the Baker Co. which is taken to present the true condition of this concern, discloses the following state of affairs:

BALANCE SHEET OF THE BAKER COMPANY
AS ON ...., 1908.

CURRENT ASSETS:			
Cash		$ 11,740	
Notes receivable................$	9,350		
Accounts receivable.........	74,030		
	$ 83,380		
Less reserve for bad debts	4,169	79,211	
Inventories:			
Raw material..................$	9,840		
Goods in process..........	8,750		
Finished goods	121,550	140,140	
Total of current assets			$ 231,091
FIXED ASSETS:			
Buildings ....$	20,000		
Less depreciation..........	1,000	$ 19,000	
Plant and machinery.......$	85,700		
Less depreciation..........	8,570	77,130	
Equipment and fixtures..$	34,900		
Less depreciation..........	3,490	31,410	
Tools (revalued)	6,369	6,369	
Total of fixed assets....			133,909
			$365,000

CURRENT LIABILITIES:		
Notes payable....................$	26,500	
Accounts payable.............	87,500	$ 114,000
CAPITAL AND SURPLUS:		
Capital stock ....$	150,000	
Surplus	101,000	251,000
		$365,000

You are required to give: (a) Closing entries for the Adams Co. (b) Journal entries for the Consolidated Manufacturing Co. covering capitalization, issue of bonds—taking for granted that the stockholders of the Adams and Baker Co. took advantage of their rights with regard to purchase of bonds—and also payments to be made to the state and county authorities. (c) Balance sheet of the Consolidated Manufacturing Co., placing the assets of Adams Co. at the value as shown by the latter's books, crediting the difference between the price paid for them and the revaluation to goodwill paid to the Baker Co.

CODE: OPERATE.

The composition of the values of the books of the three old companies absorbed as stated in the preceding problem were:

ASSETS:

	1	2	3
Property sold	$ 80,000	$ 163,000	$ 282.000
Book accts., not sold	1,000	3,000	5,000
	$ 81,000	$ 166,000	$ 287,000

LIABILITIES:

	1	2	3
Bills and accounts settled by old company	$ 49,000	$ 100,000	$ 189,000
Undivided profits	2,000	6,000	8,000
Capital stock	30,000	60,000	90,000
	$ 81,000	$ 166,000	$ 287,000

Frame the journal entries for closing the books of the old companies according to the above statement.

CODE: OPTIC.

A merger was made of six corporations with the following assets:

FIRST CORPORATION.

ASSETS:

Plant and franchises	$ 600,000.00
Cash	20,000.00
Book accounts receivable	100,000.00
Supplies	10,000.00

LIABILITIES:

Capital stock:	
Common ($50.00)	$ 200,000.00
Preferred	200,000.00
Bond account	250,000.00
Book account payable	30,000.00

SECOND CORPORATION.

ASSETS:

Plant and franchises	$ 1,000,000.00
Cash	30,000.00
Book accounts receivable	180,000.00
Supplies	40,000.00

LIABILITIES:

Capital stock ($50.00)	$ 500,000.00
Bond account	750,000.00
Book account payable	50,000.00

The other four corporations each had a capital stock of $1,000, of which $100 each was paid for organization expenses, leaving a balance in cash in the treasury of each company of $900.

A corporation was formed to purchase all the capital stock of the merged corporations, and create a bond and mortgage sufficient to retire the outlying bonds of the corporations merged, together with the capital stock and bonds of the following corporations having the following assets and liabilities:

"A."

ASSETS:

Plants and franchises	$ 1,000,000.00
Book accounts receivable	70,000.00
Cash	50,000.00
Supplies	10,000.00

LIABILITIES:

Capital stock	$ 500,000.00
Bonds	500,000.00
Book accounts payable	80,000.00

"B."

ASSETS:

Plant and franchises	$ 10,000.00
Cash	5,000.00
Book accounts receivable	3,000.00
Supplies	1,000.00

LIABILITIES:

Capital stock ($50.00)	$ 10,000.00
Bond accounts payable	5,000.00

In addition to the new corporation being the holding corporation of the stock of the above corporation, a merger of three other corporations was made, the business to be carried on under the name of the new corporation formed, and the combined assets and liabilities of the corporation so merged were as follows:

ASSETS:

Plant and franchises	$ 2,500,000.00
Cash	50,000.00
Book accounts receivable	100,000.00
Supplies	20,000.00

LIABILITIES:

Capital stock ($50.00)	$ 1,000,000.00
Bonds	1,500,000.00
Book accounts payable	150,000.00

It was agreed to purchase the stock of the above corporations at the following rates, to be paid for in stock of the new corporation:

Corporation No. 1 at 20 shares new company for one of old.

Corporation No. 2 at 9 shares new company for one of old.

The four other companies par $20.00 share for share and corporation "A" share for share. Corporation "B," 2 shares of new company stock for one of old.

The capital stock of the other three corporations which the new company proposed to operate were exchanged share for share. All of the expenses of both mergers and organization of the new corporation amounting to $50,000 were to be paid by the new corporation, and it was agreed that bonds amounting to $1,000,000 should be issued to be used in betterments of the corporations of which they had purchased the entire capital stock.

Show entries for opening the books of the first six corporations merged. Provide capital stock and bond issue to cover the requirements above stated and show opening entries for new corporation.

CODE: ORDER.

The following is abstracted from an agreement of merger and consolidation made Dec. 31, 1908, between the Pennsylvania Tool Co., party of the first part, and the Keystone Tool Co., party of the second part. Said parties of both parts, being corporations duly organized and existing under the laws of the State of Pennsylvania, by this agreement merge and consolidate into a single corporation.

The name of the corporation hereby formed by said consolidation shall be the Pennsylvania Tool Co.

The amount of capital stock of the new corporation is $100,000, all of which shall be common stock, divided into 1,000 shares of a par value of $100. The manner of distributing capital stock shall be as follows:

The capital stock of the Pennsylvania Tool Co., party of the first part, shall be exchangeable for capital stock of the new corporation, share for share, and the balance of the capital stock of the new corporation hereby formed shall be distributed to the stockholders of the Keystone Tool Co., in proportion to their present holdings.

The Pennsylvania Tool Co., party of the first part, was incorporated shortly before the date of merger, and had transacted no business other than the issuance of ten shares of capital stock, $100 each, for which payment of $1,000 had been received, and which was on hand in the treasury of the company on the date of the merger, and directly after the merger transferred to the bank deposit account of the consolidated company and credited to an account called "Suspense."

The Keystone Tool Co. had for a number of years been actively engaged in business. Its fiscal year ended Sept. 30, 1908, at which time an inventory was taken, and its accounts had been properly closed. At the date of the merger the following trial balance was drawn from the books:

	DEBITS	CREDITS
Cash	$ 20,000.00	$
Accounts receivable	15,000.00	
Mdse. inv., Sept. 30, 1908	130,000.00	
Mdse. purchases	250,000.00	
Expenses	25,000.00	
Accounts payable		10,000.00
Sales		300,000.00
Capital stock		30,000.00
Undivided profits, balance Sept. 30, 1908		100,000.00
Totals	$ 440,000.00	$ 440,000.00

The account books of this concern were not closed at the date of the merger and no inventory was taken, although the exchange of capital stock was effected and all business after Dec. 31, 1908, was transacted under the name of the Pennsylvania Tool Co. It was not until March 31, 1909, that an accountant was asked to state the accounts of the new company from the date of consolidation.

At March 31, 1909, before the accountant had commenced his work, an inventory was taken which showed the value of merchandise on hand as at that date to be $216,250, and the following trial balance was abstracted from the books:

TRIAL BALANCE, MARCH 31, 1909.

	DEBITS	CREDITS
Cash	$ 26,000.00	$
Accounts receivable	10,000.00	
Mdse. inv., Sept. 30, 1908	130,000.00	
Mdse. purchased	600,000.00	
Expenses	60,000.00	
Accounts payable		10,000.00
Sales		685,000.00
Suspense		1,000.00
Capital stock		30,000.00
Undivided profits		100,000.00
Totals	$ 826,000.00	$ 826,000.00

Prepare a balance sheet of the consolidated company as at March 31, 1909, and the profit and loss accounts arranged to show the profits of the consolidated company for three months ending March 31, and of the Keystone Tool Co., for three months ending Dec. 31st; also statements showing the disposition of profits taken over by the new company.

State what basis you make use of in determining the approximate value of merchandise on hand at Dec. 31st.

CODE: ORIENTAL.

The Gendron Corporation operates Coal Mines, Saw Mills, a Logging Railroad and have their own timber holdings.

All of the accounts are kept in one large ledger, with the usual books of original entry, at the general office in New York. They engage the services of yourself to audit the books for the year ending June 30, 1909. The following is a copy of the Trial Balance.

GENDRON CORPORATION.

Trial Balance—June 30, 1909.

Plant Equipment—Mine A	$ 31,955.26	
New Plant—Mine 7	62,173.27	
Stumpage, cut for sawmill	7,524.26	
Capital Stock		$581,500.00
Betterment to Mines 3 and 4	2,783.42	
Local Purchase Logs	51.66	
Sawmill Repairs	1,360.31	
Cash	7,436.05	
Development—Mine No. 1	3,822.37	
Timber and Land	240,305.26	
Planing Mill Repairs	341.43	
Accounts Receivable	76,421.91	
Mine Engineering Tools—Mine 1	225.00	
Petty Cash—Mines	750.00	
Lumber—Outside Purchases	79.20	
Lighterage on Lumber	57.95	
Mine Administrative Salaries and Supplies	2,195.22	
Petty Expenses at Mines	1,649.28	
Tenant Houses at Mines	2,117.22	
Lumber, Logs, Etc., on Hand	50,853.60	
Sawmill Pay Roll	4,141.41	
Planing Mill Pay Roll	2,421.95	
Commissary Purchases—Lumber	8,642.58	
Feed and Labor—Mine Stables	925.75	
Electrical Repairs at Mine	467.97	
Commissary Pay Roll—Lumber	726.65	
Logging Pay Roll	200.00	
Unexpired Insurance Premiums	3,918.49	
Mine Cars	6,139.78	
Lath Mill Pay Roll	249.65	
Electrical Plant—Mine	3,190.00	
Interest on Loans Covering Mine Plant Construction	7,226.73	
Mines Warehouse—Stock on Hand	1,743.22	
Lath Mill Repairs	7.27	
Railroad Equipment	74,710.38	
Railroad Pay Roll and Expenses	2,241.86	
Camp Equipment	22,192.34	
Camp Pay Roll	1,549.75	
Yard and Shed Repairs	112.10	
Logging Railroad Track	47,769.13	
Office Salaries—Lumber	1,021.67	
Unclaimed Miners' Wages		246.17
Coal Sales		57,280.78
Building Material on Hand at Mine	810.75	
Interest on Funds to Develop Mine No. 1	240.00	
Mine Office Furniture and Fixtures	1,459.17	
Mine Officer's House Furnishings	513.29	
Mine Railroad Track and Switches	3,916.82	
Telephone Line—Mill to Woods	436.56	
Freight on Logs to Sawmill	1,614.40	
Camp Boarding House Equipment	1,500.00	
Interest and Discount—Lumber	422.09	
Mine Store Expense and Labor	2,472.83	
Mine Store Freight	472.98	
Sawmill Machine Shop	2,328.53	
Outside Investment	1,949.90	
Advanced to New Coal Corporation	1,373.27	
Mill Plant	324,982.92	
Lumber Sales		28,033.11
Lath and Shingle Sales		2,392.45
Insurance—Mill	85.30	
Operation Chicago Office—Lumber	1,000.00	
Allowances and Discounts—Coal Shipments	637.40	
Repairs and Expenses—Mine Stables	124.22	
Mine Office—Salaries and Supplies	1,562.23	
Mine Eng.—Salaries and Supplies—Mine No. 1	625.00	

CODE: ORIENTAL—CONCLUDED.

Traveling Expenses—Mine Manager	221.67	
Interest—Current Loans at Mine	125.00	
General Office Expenses—Lumber	853.80	
Discount on Lumber Sold	1,931.60	
Bills Payable		172,667.50
Accounts Payable—Audited		24,287.03
Bonds on Timber Lands		35,000.00
Taxes—Mines	178.53	
Insurance—Mines	1,271.11	
Legal Expense—Mines	785.00	
Royalty on Coal Mined	4,989.77	
Mining Labor	29,871.23	
Surplus		195,764.45
Sales of Wood		186.00
Rent of Dwellings and Miscellaneous Income—Lumber		278.00
Yard Filling and Tunnel Extensions at Mines	2,743.22	
Delivery of Coal to Tipple	3,571.28	
Maintenance of Way—Mines	710.11	
Maintenance of Air—Mines	739.10	
Props, Ties and Caps	497.17	
Mine Foreman—Salary	800.00	
Maintenance of Mine Cars	209.38	
Mine Machinists and Engineers Wages	1,378.78	
Smithing—Mines	672.10	
Fuel—Mine Power House	297.51	
Removal of Slate	551.98	
Deadwork at Mines	47.21	
Electrical Supplies at Mines	2,488.55	
Insurance During Construction of Mine Plant	937.97	
Norfolk & Western Ry. Claims at Mines	71.59	
Repairs to Miners' Houses	171.19	
Legal Expense—In re Right of Way to Mines	342.68	
Live Stock at Mine	3,850.00	
Taxes During Construction of Mines Plant	313.71	
Mine Commissary Purchases	8,427.60	
Rental from Miners' Houses		1,572.27
Cartage and Sale of Coal to Tenants		70.09
	$1,099,277.85	$1,099,277.85

They have agreed to a plan whereby the Coal Mine operations will be taken over by a new corporation and therefore ask that you separate the Lumber and Coal Accounts, make up a separate set of statements in detail to cover each business (Balance Sheet, Surplus Account, Profit and Loss Account and Statement of Operations). The Capital Stock to stand as part of the Lumber Accounts.

You find as follows:

(1) Bills Receivable Account was balanced and closed, but among the records and papers of the company, you found Bills Receivable for Lumber Accounts amounting to $2,791.17 previously charged off, but now considered good and collectible.

(2) Mine No. 1 is in a state of development and has not been as yet operated.

(3) Of the Accounts Receivable, $15,180.92 cover coal shipments.

(4) Of the Bills Payable, $50,725.00 cover mine investments.

(5) Unexpired Insurance Premiums include $726.10 on mine policies paid for account of the new corporation.

(6) Taxes paid in advance $78.53 on mine properties.

(7) Of the surplus before closing the accounts $98,958.44 arises from mine operations prior to the year ending June 30, 1909.

(8) Of the Accounts Payable, $12,790.79 cover mine bills audited

Show the necessary journal entries to adjust the accounts in accordance with the foregoing explanations.

CODE: ORIENTALIST.

The Potlatch Lumber Mfg. Co. is incorporated for $1,500,000.00, of which the Gendron Corporation subscribed for 25%, the Block Lumber Co., 50%, and the Columbia River Lumber Co., 25%. The Potlatch Co. agreed to take over the lumber business of each of the three concerns named. It is understood that balances due to the contributing companies on purchase account are to be applied as part payment of their stock subscription.

(a) The Gendron Corporation agrees to dispose of its plant for $250,000.00, reserving its timber holdings; railroad and other equipment; amount due from Black Diamond Fuel Co. on account of mining department advances and $8,000.00 of Accounts Receivable not considered collectible. Also it assumes all liabilities except Accounts Payable.

(b) The other companies submit the following Balance Sheets:

BLOCK LUMBER CO.

Balance Sheet.

Cash on Hand and in Bank	$ 6,410.81	
Bills Receivable	2,131.55	
Bills Payable		$77,191.94
Lumber, Logs, Etc.	52,176.59	
Unexpired Insurance Premiums	1,317.58	
Mill Supplies and Extras	819.26	
Teams	2,859.65	
Standing Timber and Lands	300,000.00	
Accounts Payable		15,197.94
Surplus		401,321.76
Mill Plant	60,500.00	
Accounts Receivable	67,496.20	
	$493,711.64	$493,711.64

COLUMBIA RIVER LUMBER CO.

Balance Sheet.

Cash	$ 438.72	
Bills Receivable	6,008.91	
Lumber, Logs, Etc.	97,303.43	
Unexpired Insurance Premiums	417.93	
Mill Supplies, Etc.	742.59	
Teams	62.50	
Bills Payable		$39,604.38
Standing Timber and Lands	42,811.83	
Tug Boat	2,019.39	
Outside Investments	6,300.00	
Mill Plant	30,000.00	
Accounts Payable		7,912.84
Surplus		172,093.42
Accounts Receivable	33,505.34	
	$219,610.64	$219,610.64

(1) Draft opening entries for the Potlatch Lumber Mfg. Co.

(2) Prepare Balance Sheet after books have been opened.

(3) Draft closing entries for the Gendron Corporation.

(4) Prepare General Balance Sheet of the Gendron Corporation after so doing.

CODE: ORIENTALISM.

The Black Diamond Fuel Co. secures a charter and capitalizes with an authorized issue of $250,000.00 Common Stock and $200,000.00 of Preferred Stock. The Common Stock is subscribed for as follows:

The Gendron Corporation	$150,000.00
W. Wilson	50,000.00
A. Smith	50,000.00

on the following terms:

(a) The Gendron Corporation to transfer all assets and liabilities as shown by your statement covering the mines property to the Black Diamond Fuel Co. Any equity to apply as part payment on the subscription, balance to be paid on call.

(b) Wilson and Smith each to pay $25,000.00 in cash, balance on call.

Show the proper entries:

(1) To make the transfer on the books of the Gendron Corporation, and

(2) Entries to open books of Black Diamond Fuel Co. and balance sheet after so doing.

CODE: ORISON.

In accordance with the provisions of a plan drawn by its prospective manager, a syndicate is created for the purpose of obtaining control of certain business interests at present organizing in a neighboring state. The members of the syndicate have in consequence contributed $1,500,000 in cash, which, pending developments, has been invested in railway bonds, acquired at par, and placed in the hands of a trustee.

In due course the trustee enters into an agreement with the A. K. Company, organized with an authorized issue of $3,500,000 of capital stock, of which 2,000 shares have already been subscribed to and paid for by incorporators and others. According to the terms of the agreement, the trustee is to deliver to the company the securities that he holds, plus $700,000 in cash, in exchange for the company's potential stock. In case, however, the trustee should fail to pay the cash into the company's treasury within 30 days, he is to return to the company two shares of stock for every $100 of cash not paid.

The members of the syndicate having failed to respond to the demand of the trustee for additional contribution, the syndicate is dissolved, and the trustee, unable to pay any cash, returns the stock to the company.

Simultaneously a second syndicate is formed under the same management. It contracts to purchase at par the securities held by the A. K. Company, in consideration of a bonus of 3-5 of the shares of stock surrendered by the first syndicate. Half of the purchase price is paid at once, the other half is payable one month later, i. e., June 30, 1911.

Prepare (a) the journal entries expressing the above facts on the books of the A. K. Company, (b) the balance sheet of the company at May 31, 1911.

CODE: ORTHODOX.

A syndicate formed for the purpose of acquiring controlling interests in several manufacturing companies, had pooled the sum of $1,200,000, and the securities purchased therewith had been placed in the hands of a trustee.

A company was organized with a subscribed capital of $5,000,000 (shares $100 each) of which $2,000 was paid in cash.

By the terms of an agreement entered into between the company and the trustee 49,980 shares of stock were to be issued to him for all the securities held by him, and $624,375 in cash was to be paid by him to the company, provision being made, however, that in case the trustee failed to pay the required amount of cash, he was to turn back to the company 3 1-5 shares of stock for each $100 that he failed to pay.

The trustee being unable to pay any cash, returned stock in lieu thereof, as provided.

The company then offered the members of the syndicate $3,000 in securities at par, and 25 shares of stock for each $3,000 contributed to a second pool of $1,200,000. This offer was accepted and half of the second pool paid in, securities and stock being issued as agreed.

Make entries for the books of the company which will give proper expression to the foregoing transactions. Prepare a balance sheet.

CODE: OSMOSE.

The following statement of affairs which was taken as being correct, was made to proposed underwriters, for the consolidation of four corporations, under a corporation to be formed to take over all the four corporations.

It was understood and agreed that the stock of Corporation No. 1, par value of which was $100.00, should be purchased at $135.00 per share.

Corporation No. 2 stock, par $100.00, at $120.00 per share.

Corporation No. 3 stock, par $50.00, at $50.00 per share.

Corporation No. 4 stock, par $25.00, at $41.00 per share.

It was also agreed by the underwriters that they would advance sufficient money to purchase said stock, the whole of the stock of the proposed corporation to be turned over to them, together with $200,000.00 of the bonds of the new company.

That sufficient bonds be issued to retire the bonds of the old corporations and provide for $500,000.00 of treasury bonds to be used in betterments.

In addition to the above, it was agreed that the underwriters would purchase at least $250,000.00 of the new bonds at 85%.

It was agreed also that the par value of the stock of the new corporation should be $100.00 per share, and that sufficient stock should be issued to cover 20% more than the cash outlay of the underwriters for the purchase of the stock of the old corporations.

It was also agreed that the new corporation should take over the assets of the old corporations, but that each of the old corporations should be clear of indebtedness except for bonds issued.

The assets turned over to the new corporation were to be as follows:

CORPORATION NO. 1.

Cash	$ 48,000.00	
Plant	450,000.00	
Supplies	90,000.00	
Book accounts receivable.	184,000.00	$ 772,000.00
Bonds	$ 350,000.00	
Capital stock	350,000.00	$ 700,000.00

CORPORATION NO. 2.

Cash	$ 70,000.00	
Plant	820,000.00	
Supplies	80,000.00	
Book accounts receivable.	270,000.00	$ 1,240,000.00
Capital stock	$ 850,000.00	
Bonds	390,000.00	$ 1,240,000.00

CORPORATION NO. 3.

Cash	$ 28,000.00	
Plant	420,000.00	
Supplies	42,000.00	
Book accounts receivable.	135,000.00	$ 625,000.00
Bonds	$ 280,000.00	
Capital stock	350,000.00	$ 630,000.00

CORPORATION NO. 4.

Cash	$ 110,000.00	
Plant	1,475,000.00	
Supplies	86,000.00	
Book accounts receivable.	432,000.00	$ 2,103,000.00
Capital stock	$ 150,000.00	
Bonds	1,890,000.00	$ 2,040,000.00

Form the new corporation with sufficient stock and bonds, the bonds to draw 5% interest to meet the requirements of this agreement, charging into plant account all taxes and bonus due the State of Pennsylvania on formation of corporation, estimated at $2,000, together with a counsel fee of $20,000, as well as other compensation under this agreement, and give a statement showing the result.

At the end of the year it is found that $250,000 of the bonds of the corporation have been sold to the underwriters and used for betterments.

The results of the business for the first year show a profit of $1,000,000 after charging 10% for depreciation on plant.

Declare such a dividend as in your judgment is reasonable, crediting surplus with whatever balance remains, and give a statement of condition, using your own figures in ascertaining profit.

CODE: OSTRACIZE.

"A. B." acquires all the shares of the capital stock of the Vendor Water Company and in order to reorganize it, forms the Purchaser Water Company with an authorized capital stock of $1,000,000, divided into $500,000 common and $500,000 preferred stock. Bonds amounting to $1,000,000 are also authorized by the Purchaser Company. A contract is executed between "A. B." individually and the Vendor Water Company by which the latter, for a cash consideration, transfers to "A. B." all its property subject to its existing debts. "A. B." then sells the property acquired from the Vendor Water Company to the Purchaser Water Company for the sum of $1,999,000 payable $1,000,000 in bonds, $500,000 in preferred stock and $499,000 in common stock of the Purchaser Water Company. The Purchaser Company also agrees to pay all existing debts of the Vendor Company. The board of directors of the Purchaser Company appraise the acquired plant at a valuation equal to the difference between the sum paid for the total assets of the old company plus liabilities assumed and the value of the assets acquired exclusive of the plant. The Purchaser Company receives in its treasury $1,000 cash from "A. B." for 10 shares of stock issued.

Frame the opening journal and cash book entries of the Purchaser Water Company and prepare the balance sheet of the Purchaser Company from the entries.

The balance sheet of the Vendor Company on the date of the transfer was as follows:

ASSETS:	
Plant	$ 1,253,000.00
Cash	17,000.00
Notes receivable	6,000.00
Accounts receivable	85,000.00
Materials in stock	35,000.00
Unexpired insurance	1,000.00
Interest paid in advance on notes payable	3,000.00
Trust company, deposit to pay coupons	250.00
Stock of other companies	80,000.00
Total assets	$ 1,480,250.00
Deficit	3,848.00
	$ 1,484,098.00
CAPITAL STOCK AND LIABILITIES:	
Capital stock	$ 1,000,000.00
Bonds	200,000.00
Notes payable	150,000.00
Accounts payable	70,000.00
Meter deposits	1,848.00
Accrued interest on bonds	5,000.00
Coupons payable	250.00
Reserve for bad debts	7,000.00
Reserve for depreciation of plant	50,000.00
	$ 1,484,098.00

CODE: OSTRICH.

The Alpha Company is organized for the purpose of acquiring a tract of land and forming an amusement resort. Its capital is $50,000. This stock is practically all issued in exchange for deeds for parts of said tract and for long term leases covering the remainder of tract, these leases containing, in all cases, clauses giving the Beta Co. or its assigns, the right to purchase at prices named in the leases and aggregating $74,620.00, on which six per cent is to be paid as rental; taxes to be paid by the Alpha Company.

The Alpha Company made a deed of trust for $150,000 on all its equities to secure bonds, and issued $72,000 of such bonds in April, 1906. It made a further issue of similar bonds to the amount of $54,000 in April, 1907. With the proceeds of such bonds it improved its property and erected a number of buildings at a cost of $110,000.

In April, 1907, it entered into an agreement with the Beta Co. to take charge of the grounds, arrange entertainments, etc. This necessitated further improvements, which were to be paid for by the Beta Co.; this company, however, had no money, so the Alpha Co. advanced $10,000 to Beta Company, taking therefor the note of the latter company.

The Beta Company finally failed with no assets except the buildings it had erected on the Alpha Company's land, and still owing Alpha Co. for the said note, besides owing many other creditors.

The Alpha Company now operated the amusement park on its own account. This involved further loss; and its balance sheet on the 30th of June, 1907, showed as follows:

ASSETS:

Buildings	$ 100,000.00
Real estate	20,000.00
Note of Beta Co.	10,000.00
Equities on leases valued at	100,000.00
Loss	40,620.00
	$ 270,620.00

LIABILITIES:

Capital stock	$ 50,000.00
Bonds—first issue	72,000.00
Due on leases	74,620.00
Bonds—second issue	54,000.00
Accounts payable	15,000.00
Mortgage interest, overdue	5,000.00
	$ 270,620.00

The Alpha Company then concluded negotiations with the Gamma Co., an electric car line company, whose line afforded the chief means of access to the property in question. This company had an authorized capital stock of $50,000, all being issued.

The Alpha Company admitted its solvency, and a majority of its stockholders agreed to surrender and cancel their stock, and to exchange their bonds in the Alpha Company for stock in the Gamma Company.

All the property of the Alpha Co. was to be transferred to the Gamma Co., which was to assume all its liabilities, and was to increase its authorized capital to $150,000, and to issue bonds on all its property for $100,000, and, out of the proceeds of these bonds, to take up the bonds of the Alpha Co. and pay off all indebtedness of Alpha Co. and to pay off its own indebtedness and develop the combined enterprises.

The Gamma Company owned an exclusive franchise for its car line, which, owing to local conditions, was safe from competition. This line, with equipment, cost $50,000. The yearly net profits were $30,000, and were likely to increase. It valued its franchise at $250,000. It had the real estate owned by the Alpha Company appraised by six independent real estate experts, the lowest valuation being $600,000, and the highest $700,000. Gamma Company had outstanding accounts payable amounting to $15,000.

State the steps required to legalize the transfer of the business of the Alpha Company to the Gamma Company.

Prepare the balance sheet of Gamma Company after the transfer had been made, criticising any items calling for special attention.

CODE: OUTCLASS.

Business corporation "A" operates a manufacturing plant and controls by ownership the entire capital stock of business corporations "B" and "C". The product marketed by each is different from that marketed by the other two, yet each utilizes some of the product of the others and regularly receives and pays the invoices therefor. "A" who owns the land on which the three plants are situated, charges rent to the other two companies and furnishes and charges them with power, heat and light. On account of insufficiency of capital, "B" and "C" are constant borrowers from "A" and pay interest on such loans. The profit or loss of "B" and "C" is taken over by "A" at the end of each year, the fiscal periods of the three being the same.

It is desired that the accounts shall be kept so that the three trial balances before closing will permit of making, without analysis of any accounts, a consolidated statement of operations and a consolidated balance sheet for the annual report of corporation "A", in addition to the separate statements of each, that will exclude all accounts growing out of the inter-relations of the three companies and will make the same representation in the classified accounts as though the properties were owned directly by Company "A" and all of the affaris and operations conducted by Company "A". State generally how such conditions may be brought about in the three trial balances.

CODE: OUTFIT.

In making up a consolidated balance sheet of a holding or parent company and two subsidiary companies where, in the case of one of the subsidiary companies its entire capital stock has been acquired at less than par, and in the case of the other, at a substantial premium, how would you deal with such discount and premium, respectively, in the consolidated balance sheet?

In the event that all the stock of one of the subsidiary companies was not owned by the parent company, how should such proportion of said stock belonging to the minority stockholders, together with the proportion of surplus appertaining thereto, be stated in the balance sheet?

CODE: OUTFLOW.

A parent company holding notes receivable from a subsidiary company to the extent of $100,000.00 endorses and discounts said notes with its bankers, thus creating a contingent liability thereunder. In preparing a consolidated balance sheet of the two companies, state how and where the liability would appear.

CODE: OUTMAN.

Company C was incorporated in May, 1910, to acquire the stock of Companies A and B. Company C's capital stock is divided into preferred $2,500,000, common $1,500,000; all the stock is outstanding and fully paid; it has been issued (a) for stock to the stockholders of Companies A and B, (b) $20,000 of preferred for organization expenses, (c) for cash. The stockholders of A and B received preferred stock for the intrinsic, undepreciated book value of the assets, as reflected by the following balance sheets of their companies at June 30. 1910, and $300,000 of common stock divisible equally to Companies A and B:

	"A"	"B"
Plant, land	$ 90,000	$ 195,000
Building and equipment	254,000	318,000
Machinery and tools	228,600	276,800
Transportation equipment	21,000	17,000
Investment in land	....	150,000
Investment in bonds—Co. "B"	60,000	
Investment in stocks	200,000	
Goods in process	45,000	49,341
Finished goods	69,000	76,340
Materials and supplies	58,000	51,300
Cash	17,420	19,175
Accounts receivable	51,000	92,800
Demand notes—Co. "B"	5,000	
Accrued interest	1,800	
	$ 1,100,820	$ 1,245,756

	"A"	"B"
Capital stock outstanding—		
Common	$ 700,000	$ 1,000,000
Preferred	100,000	
6% bonds, 1915, J & J and interest accrued	....	92,700
Accounts payable	59,800	41,656
Loans payable	65,800	35,000
Audited vouchers unpaid	18,320	13,400
Demand notes payable	....	5,000
Reserve for depreciation	24,900	30,000
Reserve for doubtful accounts	5,000	2,000
Reserve for contingencies	16,000	
Surplus	111,000	26,000
	$ 1,100,820	$ 1,245,756

Between July 1 and July 31, 1910, the following transactions occurred: Organization expenses paid in cash by Company C $5,000; intercompany advances by C: to A $60,000, to B $60,000; Company A reduced its accounts payable by $25,000; its loans payable by $30,000 and its audited vouchers by $15,000; Company B reduced its accounts payable by $29,500, liquidated its audited vouchers unpaid and its interest due under the bonds.

The manufacturing operations of the period show: Company A—labor $10,000; overhead expense $8,000; materials consumed $9,886; inventory of goods in process $46,300, of finished goods $50,740; selling expenses paid $1,600; administration expenses $2,500; sales $72,500; collections of open accounts $86,400. Company B—labor $3,600; overhead $2,350; materials $5,210; inventory of goods in process $40,500, of finished goods $46,380; sales $98,000; collection of open accounts $109,150; administration expenses $3,000.75; selling expenses $1,040.

No materials were purchased during the period and the current expenses were paid as soon as the invoices were audited. Company A declared a dividend of $100,000 and Company B a dividend of $25,000.

Prepare the consolidated balance sheet of Companies A and B and C, at July 31, 1910, to be submitted to the directors of Company C and so arranged as to show them the exact detail of the properties that they control.

CODE: OUTSKIRT.

From the three following trial balances prepare a consolidated balance sheet as at December 31, 1912, in the form you would draw it up for presentation to the stockholders of the parent company (The Safety Razor Company) showing as separate items therein (a) the total goodwill of the combined companies; and (b) the net profits accruing to the new corporation, viz., to the Safety Razor Company.

SAFETY RAZOR COMPANY

TRIAL BALANCE AT DECEMBER 31, 1912:

Preferred stock	$	$ 1,500,000.00
Common stock		1,500,000.00
Investments in Subsidiary Companies— 4,000 shares of stock of L. W. Co. and 4,000 shares of stock of Steel Blade Co., both of $100.00 each at cost	2,500,000.00	
Accounts payable		20,000.00
Dividends of subsidiary companies		100,000.00
Administration expenses	25,000.00	
L. W. Co. current account	100,000.00	
Steel Blade Company advances	150,000.00	
Cash	270,000.00	
Organization expenses	75,000.00	
	$ 3,120,000.00	$ 3,120,000.00

L. W. COMPANY

TRIAL BALANCE AT DECEMBER 31, 1912:

	Dr.	Cr.
Properties and plant	$ 325,000.00	$
Goodwill	250,000.00	
Investment in Steel Blade Co.— 2,000 shares of a par value of $100.00 each cost $300,000.00	400,000.00	
Inventories	250,000.00	
Receivables	195,000.00	
Cash	90,000.00	
Capital stock (4,000 shares)		400,000.00
Accounts payable		125,000.00
Steel Blade Company		175,000.00
Surplus (includes $100,000.00 added to book value of investment in Steel Blade Co.)		710,000.00
Safety Razor Co.		100,000.00
	$ 1,510,000.00	$ 1,510,000.00

STEEL BLADE COMPANY

TRIAL BALANCE AT DECEMBER 31, 1912:

	Dr.	Cr.
Goodwill	$ 50,000.00	$
Property and plant	325,000.00	
Inventories	190,000.00	
Receivables, general	105,000.00	
L. W. Company	195,000.00	
Cash	10,000.00	
Capital stock (6,000 shares)		600,000.00
Accounts payable		90,000.00
Safety Razor Company		150,000.00
Surplus or deficit		35,000.00
	$ 875,000.00	$ 875,000.00

In the preparation of your consolidated balance sheet be guided by the following assumed facts:

1. That the Safety Razor Co. was formed on March 28, 1912, and acquired its stock ownership in the two subsidiary companies, as shown in its trial balance, on April 1, 1912.

2. That at January 1, 1912, the L. W. Company had a surplus of $605,000.00 and the Steel Blade Company a deficit of $50,000.00.

3. That no inventory was taken of either the L. W. Company or the Steel Blade between January 1 and December 31, 1912, the business of the companies being continued without interruption notwithstanding the change in ownership of the capital stock as indicated above.

4. That prior to December 31, 1912, the L. W. Company declared a dividend of $100,000.00 payable to the parent company which was duly taken up on the books of both companies, being passed through the Current Accounts and charged against the surplus of the L. W. Company prior to December 31, 1912.

5. That the difference in the current accounts between the Steel Blade Company and the L. W. Company represents as to $10,000.00 merchandise in transit, and as to the remaining $10,000.00 a charge for rental of warehouse for the last six months of 1912, which has been credited to the rent account on the books of the Steel Blade Company.

6. That it is estimated on reliable authority which may be accepted as final that from January 1 to March 31, 1912, the net profits of the L. W. Company amounted to $30,000.00 while during the same period the Steel Blade Company lost $15,000.00.

Attach your consolidating working papers to the consolidated balance sheet you prepare.